

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF MUHLENBERG COUNTY)	
WATER DISTRICT #3 TO CONSTRUCT, FINANCE)	CASE NO. 94-125
AND ADJUST RATES)	

O R D E R

On March 31, 1994, Muhlenberg County Water District #3 ("Muhlenberg Water") submitted an application to the Commission requesting approval of proposed water system improvements and capital expenditures, financing, and an increase in water rates of approximately \$114,740, or 24 percent. The proposed financing included a \$200,000 loan from First National Bank of Central City and \$32,800 in district funds. Due to insufficient documentation Muhlenberg Water's application was not accepted for filing until June 23, 1994.

In its original application, Muhlenberg Water proposed to elevate two existing water storage tanks, to install an additional main transmission line, and to purchase other related construction equipment at a cost of \$232,800. Additional engineering information was requested by Commission Order entered July 18, 1994. Two time extensions to file the requested information were requested by Muhlenberg Water. These time extensions were granted by the Commission. By letter filed on November 7, 1994, Muhlenberg Water revised its construction plan to eliminate the raising of two water tanks and proposed to construct two hydropneumatic

booster pump stations, 10,400 linear feet ("L.F.") of 6- and 3-inch diameter pipelines, and related appurtenances. Also included was Muhlenberg Water's response to the Commission's July 18, 1994 Order. Additional engineering information was submitted to the Commission on January 9, 1995, and March 13, 1995. The total cost of the revised construction and capital expenditures is \$163,424.¹

Plans and specifications for the proposed improvements prepared by Lyne & Associates, Inc. of Nashville, Tennessee ("Engineer"), have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

Commission Staff conducted a limited financial review of Muhlenberg Water's operations for the test period, calendar year 1993. Based upon this review, Commission Staff issued a report on July 1, 1994 recommending an increase in annual operating revenues of \$105,539.

By Order dated July 1, 1994, the Commission advised Muhlenberg Water that comments on the Staff Report or a request for a public hearing must be submitted no later than July 16, 1994 or this case would stand submitted to the Commission for decision. However, due to the delays by Muhlenberg Water outlined above, the engineering documentation was not complete until March 13, 1995. No comments on the Staff Report or request for a public hearing or informal conference were received by the Commission.

On February 21, 1995, Ray T. Harper, an intervenor in this proceeding, filed comments related to Muhlenberg Water's filings of

¹ Filed January 23, 1995, Revised February 15, 1995.

January 23, 1995 and February 15, 1995. Mr. Harper proposed that the Commission disallow certain capital expense items requested by Muhlenberg Water. These items include contract work performed by Muhlenberg County Trenching, the purchase of a new truck, the purchase of a used backhoe and trencher, and the purchase of a mower. It should be noted that these items were addressed in the Staff Report and that no comments were filed at that time.

The Commission is of the opinion that Muhlenberg Water has sufficiently justified these expenditures and that Mr. Harper has not provided any documentation or other evidence to sway that opinion. Accordingly, the Commission has disallowed the adjustments proposed by Mr. Harper.

Summary of Operations

Based on the Staff Report issued in this case, Muhlenberg Water's adjusted test-year operations appear as follows:

	<u>Staff Recommended Test Year Adjusted</u>
Operating Revenues	\$ 488,499
Operating Expenses	<u>482,725</u>
Operating Income	\$ 5,774
Interest Income	<u>3,304</u>
Income Available for Debt Service	<u>\$ 9,078</u>

Operating Revenues

In the Staff Report issued in this case, it was reported that the billing analysis showed test-year operating revenues in the amount of \$477,864. Upon further review, the Commission finds that the test-year billing analysis generates \$478,083, a difference of \$219 from the amount shown in the Staff Report. Therefore, total

test period normalized operating revenue is considered to be \$488,718.

Operating Expenses

Subsequent to the issuance of the Staff Report, Muhlenberg Water filed additional information in January and February 1995, which affected rate case expense, depreciation expense and the annual debt service as previously recommended by Staff.² The Commission's adjustments with regard to these items are discussed in the following paragraphs.

Rate Case Expense

Staff recommended that Muhlenberg Water amortize total rate case expense of \$5,621 over a three-year period, resulting in annual rate case expense of \$1,874. On January 27, 1995, Muhlenberg Water filed additional invoices which increased total rate case expense to a level of \$6,518. The Commission, therefore, has included annual rate case expense of \$2,173,³ an increase of \$299 over Staff's recommendation.

Depreciation Expense

Based on Muhlenberg Water's original proposed construction and capital expenditures and supporting documentation provided, Staff recommended an increase to test year depreciation expense of \$19,351. The revised construction and related costs filed subsequent to the Staff Report result in an increase to test year depreciation expense of only \$13,439, calculated as follows:

² Appendix B to Staff Report dated July 1, 1994.

³ $\$6,518 + 3 \text{ yrs.} = \$2,173$

Item No.	Final Estimated Cost	Estimated Service Life	Annual Depreciation Expense
1	\$ 67,533	30 yrs.	\$ 2,251
2	6,400	10 yrs.	640
3	19,490	5 yrs.	3,898
4	8,952	5 yrs.	1,790
5	28,000	7 yrs.	4,000
7	25,799	30 yrs.	860
Total	<u>\$156,174</u>		<u>\$ 13,439</u>

This reflects a decrease of \$5,912 from Staff's recommended depreciation expense.

Debt Service Requirement

Muhlenberg Water originally proposed to finance its system improvements through utility funds on hand and a \$200,000 five-year loan from First National Bank. On February 15, 1995, Muhlenberg Water revised its proposed loan amount to \$142,539,⁴ based on financing the total remaining balance of its system improvements. The Commission has made an additional adjustment to eliminate rate case expenses of \$2,850 since this expense has already been addressed. As a result of the Commission's adjustment the total amount to be financed is \$139,689.

Based on borrowing at an interest rate of 6.25 percent, over a period of 48 months, the Commission has calculated a monthly payment of \$3,297, or an annual debt service of \$39,564. Combined with the existing long-term debt this results in total annual debt service of \$88,679.

⁴ Total Cost of Revised Construction and Capital Expenditures	\$ 163,424
Less: Amount Paid in 1994	<u>(20,885)</u>
Remaining Balance to be Financed	<u>\$ 142,539</u>

Revenue Requirements Determination

Based on the aforementioned adjustments the Commission has determined that Muhlenberg Water should be allowed to increase its annual revenues by \$91,505, calculated as follows:

Commission Adjusted Operating Expenses	\$ 477,112
Average Annual Debt Service	88,679
20 Percent DSC	<u>17,736</u>
Total Revenue Requirement	\$ 583,527
Less: Normalized Revenue from Water Sales	478,083
Other Operating Revenues	10,635
Interest Income	<u>3,304</u>
Required Revenue Increase	<u>\$ 91,505</u>

The Commission, having reviewed the evidence of record and being otherwise sufficiently advised, finds that:

1. Public convenience and necessity require that the construction proposed be performed and that a Certificate of Public Convenience and Necessity be granted.

2. The recommendations and findings contained in the Staff Report, except where specifically changed in this Order, are supported by the evidence of record, are reasonable, are hereby adopted as the findings of the Commission in this proceeding and are incorporated by reference as if fully set out herein.

3. The proposed construction consists of 10,400 L.F. of 6- and 3-inch diameter pipelines, two hydropneumatic booster pump stations, and related appurtenances. After allowances are made for fees, contingencies, other indirect costs, the total cost of this project is approximately \$163,424.

4. Muhlenberg Water should monitor the adequacies of the expanded water distribution system after construction. If the level of service is inadequate or declining or the pressure to any customer is outside the requirements of 807 KAR 5:066, Section 5(1), Muhlenberg Water should take immediate action to maintain the level of service in conformance with the regulations of the Commission.

5. Muhlenberg Water should obtain approval from the Commission prior to performing any additional construction not expressly certificated by this Order.

6. Any deviation from the construction approved should be undertaken only with the prior approval of the Commission.

7. Muhlenberg Water should furnish duly verified documentation of the total costs of this project including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is substantially completed. Said construction costs should be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for Water Utilities prescribed by the Commission.

8. Muhlenberg Water should require construction inspection under the general supervision of a professional engineer with a Kentucky registration in civil or mechanical engineering, to ensure that the construction work is done in accordance with the contract drawings and specifications and in conformance with the best practices of the construction trades involved in the project.

9. Muhlenberg Water should require the Engineer to furnish within 60 days of the date of substantial completion of this construction a copy of the "as-built" drawings and a signed statement that the construction has been satisfactorily completed in accordance with the contract plans and specifications.

10. The financing plan originally proposed by Muhlenberg Water should be denied.

11. A financing plan consisting of \$139,689 is for lawful objects within the corporate purpose of its utility operations, is necessary and appropriate for and consistent with the proper performance of the utility's service to the public and will not impair its ability to perform that service, and is reasonably necessary and appropriate for such purpose. This financing plan should, therefore, be approved.

12. The rates proposed by Muhlenberg Water should be denied.

13. The rates set forth in Appendix A, are the fair, just, and reasonable rates for Muhlenberg Water, will produce gross annual revenues of \$569,588 and will allow Muhlenberg Water sufficient revenues to meet its operating expenses and service its debt.

IT IS THEREFORE ORDERED that:

1. Muhlenberg Water be and it hereby is granted a Certificate of Public Convenience and Necessity to proceed with the proposed construction project as set forth in the drawings and specifications of record herein for 10,400 L.F of 6- and 3-inch diameter pipelines, two hydropneumatic pump stations and related

appurtenances, on the condition that service levels be monitored and corrective action taken in accordance with Commission regulations.

2. Muhlenberg Water shall comply with all matters set out in Findings 4 through 9 as if the same were individually so ordered.

3. Muhlenberg Water's financing plan consisting of a \$142,539 loan from First National Bank is denied.

4. A financing plan consisting of a \$139,689 loan from First National Bank is hereby approved. The financing herein approved shall be used only for the lawful purposes specified in Muhlenberg Water's application.

5. The rates proposed by Muhlenberg Water in its application are denied.

6. The rates contained in Appendix A are approved for service rendered by Muhlenberg Water on and after the date of this Order.

7. Within 30 days of the date of this Order, Muhlenberg Water shall file with the Commission its revised tariff setting out the rates approved herein.

Done at Frankfort, Kentucky, this 10th day of April, 1995.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 94-125 DATED APRIL 10, 1995

The following rates and charges are prescribed for the customers in the area served by Muhlenberg County Water District No. 3. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

Residential/Commercial

First	2,000 Gallons	\$10.83 Minimum Bill
Next	8,000 Gallons	3.66 Per 1,000 Gallons
Next	10,000 Gallons	3.06 Per 1,000 Gallons
Next	30,000 Gallons	2.36 Per 1,000 Gallons
Over	50,000 Gallons	1.81 Per 1,000 Gallons

Resale/City of Sacramento

All Usage	\$ 1.81 Per 1,000 Gallons
-----------	---------------------------